Recommendation of the SEC Investor Advisory Committee's Disclosure Subcommittee Regarding the Disclosure of Artificial Intelligence's Impact on Operations

Executive Summary:

The use of generative Artificial Intelligence tools (AI) amongst issuers has proliferated over recent years. Issuers have struggled with providing consistent disclosure to investors in the absence of comprehensive guidance from the Commission. Accordingly, the SEC Investor Advisory Committee (IAC) makes the following recommendations to the Commission:

1) require issuers to adopt a definition of the term "Artificial Intelligence";

2) disclose board oversight mechanisms, if any, for overseeing the deployment of AI at the company; and

3) report separately on how issuers are deploying AI and, if material, the effects of AI deployment on (a) internal business operations, and (b) consumer facing matters.

Introduction

On March 6, 2025 the SEC's Investment Advisory Committee held a panel titled "Disclosure of Artificial Intelligence's Impact on Operations".[1] The panel was moderated by Professor Alvin Velazquez, Vice-Chair of the Disclosure Subcommittee. The Committee heard from the following panelists:

Panelists:

1) Matthew T. Bodie, Robins Kaplan Professor of Law at University of Minnesota School of Law

2) Deep Ratna Srivastav**,** Chief AI Officer, Franklin Templeton

3) Hamish Macalister, Ph.D, CEO, Transparently AI

4) Rekha Vaitla, Investment Officer, CalSTRS Sustainable Investment and Stewardship Strategies, and

5) Paul Washington, President and CEO, Society for Corporate Governance.

The purpose of the panel was to bring together various stakeholders to examine the desirability of SEC action on creating an AI-related disclosure framework for the purpose of providing investors with information they need to make informed investment decisions.

[1] *See* U.S. SEC. & EXCH. COMM'N., *SEC 2025 03 06 Investor Advisory Committee Meeting 01* (YouTube, Mar. 10, 2025) [hereinafter *IAC Meeting*], https://www.youtube.com/watch?v=1sCKA5Nd4z4.

To do that, this panel specifically focused on AI's impact on internal corporate operations and financial disclosures. The panel's genesis arose from a jointly authored report by Deloitte and the USC Marshall School of Business outlining how large companies view AI as a "risk multiplier" across several parts of their operations. That report noted that AI poses a variety of risks and opportunities that companies need to disclose, but the lack of consistency in these disclosures can be problematic for investors seeking clear and comparable information.[2] 60% of S&P 500 companies view AI as a material risk, with concerns spanning across cybersecurity, competition, innovation, regulations, intellectual property, ethical, and reputational risks.[3] However, the way these risks are disclosed varies significantly among industries, making it challenging for investors to assess and compare the risks and opportunities effectively.[4]

Background

Since at least 2020, academic literature has noted the lack of disclosure guidance from the SEC addressing AI system opacity.[5] One scholar noted that… "[a]mong those firms disclosing AI services, most only mention algorithms and their risks without providing technical and practical details."[6] The same could be said today. Five years later, the markets are still looking for guidance. A recent report from the Boston Consulting Group ("BCG") concludes that despite all of the hype surrounding AI, only 22% of companies have moved beyond the proof of concept phase towards integrating its use into core business functions or to create new lines of revenue.[7] According to BCG, "[l]eaders expect to generate significant value—45% more in cost reduction and 60% more in revenue growth than other firms. They expect their return on investment (ROI) from AI initiatives in 2024 to more than double what other companies expect from theirs."[8] However, a recent report from MIT indicates that ROI on AI spending is uneven amongst businesses. It states that: "[d]espite $30–40 billion in enterprise investment into GenAI, this report uncovers a surprising result in that 95% of organizations are getting zero return."[9]

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[2] *Id*.

[3] Deloitte and USC Marshall School of Business Peter Arkley Institute for Risk Management, *Largest companies view AI as a risk multiplier: From cybersecurity, regulatory, and competition to reputation, ethics, and intellectual property* (Oct. 2024) at 1.

[4] *Id*.

[5] "However, the SEC has not yet established any public rules that specifically address AI systems and disclosures. In this vein, a firm is not required to disclose its use of machine-learning algorithms in a timely and specific manner." Sylvia Lu, *Algorithmic Opacity, Private Accountability, and Corporate Social Disclosure in the Age of Artificial Intelligence*, 23 VAND. J. ENT. & TECH. L. 99, 129 (2020).

[6] *Id*. at 130.

[7] Nicolas de Bellefonds et al., *Where's the Value in AI,* BOS. CONSULTING GRP. (Oct. 24, 2024), https://www.bcg.com/publications/2024/wheres-value-in-ai.

[8] *Id*.

[9] Aditya Challapally, Chris Pease, Ramesh Raskar, Pradyumna Chari, *The GenAI Divide: State of AI in Business in 2025,* MIT NANDA (July 2025), at 3.

Recent filings by large public companies suggest the following themes:

1. AI as Cybersecurity Threat

Companies increasingly recognize cyber threats as a material risk. Companies particularly highlight concerns about AI-powered phishing, ransomware, and social engineering attacks.[10]

2. AI as Strategic Operational and Competitive Tool

Companies view AI implementation as critical for maintaining competitive advantage while acknowledging operational integration challenges. Disclosures reflect both the strategic necessity of AI adoption and the risks of falling behind competitors in AI implementation.[11]

3. AI Subject to Evolving Regulatory Framework

Issuers have expressed concern about the rapidly evolving and uncertain regulatory landscape surrounding AI technologies with AI regulations across different jurisdictions (e.g., the EU GDPR, the EU AI Act) and the impact on business operations.[12] For example, while the EU

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[10] *See, e.g.*, MARATHON PETROLEUM CORP., ANNUAL REPORT ON FORM 10-K FOR THE FISCAL YEAR ENDED DECEMBER 31, 2023, at 19 (Form 10-K) (Feb. 28. 2024), https://www.sec.gov/Archives/edgar/data/1510295/000151029524000015/mpc-20231231.htm ("Our information systems . . . are subject to numerous and evolving cybersecurity threats and attacks, including ransomware and other malware, and phishing and social engineering schemes, supply chain attacks, and advanced artificial intelligence cyberattacks . . ."); *see also* GOLDMAN SACHS GROUP INC., ANNUAL REPORT ON FORM 10-K FOR THE FISCAL YEAR ENDED DECEMBER 31, 2023 (FORM 10-K), at 96 (Feb. 23, 2024), https://www.sec.gov/Archives/edgar/data/886982/000088698224000006/gs-20231231.htm. ("the use of artificial intelligence and machine learning by cybercriminals may increase the frequency and severity of cybersecurity attacks . . .").

[11] *See, e.g.*, MICROSOFT CORP., ANNUAL REPORT ON FORM 10-K FOR THE FISCAL YEAR ENDED JUNE 30, 2024 (FORM 10-K), at 21 (July 30, 2024), https://www.sec.gov/Archives/edgar/data/789019/000095017024087843/msft-20240630.htm ("We are investing in artificial intelligence . . . across the entire company and infusing generative AI capabilities into our consumer and commercial offerings . . ."); *see also* META PLATFORMS, INC., ANNUAL REPORT ON FORM 10-K FOR THE FISCAL YEAR ENDED DECEMBER 31, 2023 (FORM 10-K), at 22 (Feb. 2, 2024), https://www.sec.gov/Archives/edgar/data/1326801/000132680124000012/meta-20231231.htm ("We are making significant investments in AI initiatives, including generative AI, to . . . recommend relevant content across our products, enhance our advertising tools, develop new products, and develop new features for existing products . . . Further, we face significant competition from other companies that are developing their own AI features and technologies.").

[12] *See, e.g.*, ALPHABET INC., ANNUAL REPORT ON FORM 10-K FOR THE FISCAL YEAR ENDED DECEMBER 31, 2023 (Form 10-K), at 19 (Jan. 30, 2024), https://www.sec.gov/Archives/edgar/data/1652044/000165204424000022/goog-20231231.htm ("Laws and regulations focused on the development, use, and provision of AI . . . could result in monetary penalties or other regulatory actions. For example . . . EU AI Act . . . includ[e] . . . specific transparency and other requirements . . . for general purpose AI systems . . ."); *see also* VERIZON COMMUNICATIONS INC., ANNUAL REPORT ON FORM 10-K FOR THE FISCAL YEAR ENDED DECEMBER 31, 2023 (FORM 10-K), at 10 (Feb. 9, 2024), https://www.sec.gov/Archives/edgar/data/732712/000073271224000010/vz-20231231.htm ("Policymakers at the local, state, federal and international levels are also considering

has adopted the EU AI Act, the United States does not have a comprehensive framework for regulating AI at the federal level. Instead, states are regulating various aspects of AI's impact on different audiences as there is no comprehensive federal privacy[13] or AI regulations.[14] This has led to companies being concerned about meeting the regulatory requirements of different states.[15]

AI-related information can be material and of interest to investors, but the issue is how to sort the relevant information into operational categories that help inform investment decisions. While issuers have been attempting to report on these risk developments concerning the use of AI across an issuer's operations, the disclosures currently remain uneven and inconsistent. For example, Professor Bodie cited research from ISS indicating that only 15% of the S&P 500 provide disclosure about board oversight of AI whereas Weil Gotshal found that 40% of companies provide disclosure about AI. He explained that these inconsistencies come from definitional problems and go to the heart of how we define AI.[16]

One reason why issuer responses may be uneven is that the SEC has not provided comprehensive guidance or rubrics that issuers could apply in deciding what to disclose to investors. From a rulemaking and enforcement perspective, the SEC's approach has been to focus on traders and market participants and how they interact with AI to make or advise on investment decisions.[17] In 2022 and 2023, the SEC issued three proposed rules to regulate certain aspects of AI disclosure, though all of them were withdrawn in 2025. The first [18]would have regulated the use of predictive analytics by investment advisors. The second proposed rule would have required broker-dealers to enact cybersecurity policies, incident reporting, and

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imposing laws and regulations on the use of artificial intelligence. This is a nascent area of regulatory focus, so it is unclear how such regulation could impact our business.").

[13] *See* Ari Ezra Waldman, *Privacy, Practice, and Performance,* 110 CALIF. L. REV. 1221, 1223–26 (2022) (analyzing the unprecedented number of privacy law proposals in Congress that uniformly adopt a flawed rights/compliance model with significant shortcomings).

[14] Renee Henson, *Government Backed Insurance for Artificial Intelligence Technologies,* 41 GA. ST. U. L. REV. 559, 612–13 (2025), https://www.californialawreview.org/print/privacy-practice-and-performance/ (describing political willingness to pass a comprehensive AI regulatory act with a licensing system as part of it).

[15] Eric Reicin, *Data Privacy Advances, Despite Lack Of Federal Privacy Law*, FORBES (Mar. 03, 2023).

[16] *IAC Meeting, supra* note 1, at 36:14–37:10 (Bodie).

[17] For purposes of this recommendation. AI-washing is defined as the making misleading claims about a firm's AI integration into operations or business lines or its capabilities. *See SEC Charges Two Investment Advisers with Making False and Misleading Statements About Their Use of Artificial Intelligence*, U.S. SEC. & EXCH. COMM'N (Mar. 18, 2024), https://www.sec.gov/newsroom/press-releases/2024-36; *See also* Franklin Okeke, *The "AI Washing" Fines Begin: Tone Down the AI Hype or Face SEC's Wrath,* TECHNOPEDIA (Mar, 26, 2024), https://www.techopedia.com/sec-cracks-down-on-ai-washing.

[18] Conflicts of Interest Associated With the Use of Predictive Data Analytics by Broker-Dealers and Investment Advisers, 88 Fed. Reg. 53960 (Aug. 9, 2023), https://www.federalregister.gov/documents/2023/08/09/2023-16377/conflicts-of-interest-associated-with-the-use-of-predictive-data-analytics-by-broker-dealers-and.

make certain public disclosure if impacted[19]. The third proposed rule would have required that investment advisers, registered investment companies, and business development companies adopt and implement written cybersecurity policies and procedures to address cybersecurity risks. [20]

This has left investors with having to sort through issuer statements regarding AI integration into operations that are inconsistent and difficult to compare. The lack of regulatory guidance is an important factor in creating inconsistent disclosures, but not the only one. There are several reasons beyond lack of guidance for why reporting remains uneven, including, but not limited to the fact that there is no single accepted definition of what is AI,[21] the technology is rapidly evolving,[22] companies have not yet captured what they are investing into AI or developed sufficient metrics for measuring its impact in operations,[23] lack of training and adoption,[24] and different industries deploy AI for both internal operations and to support business lines.[25]

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[19] Cybersecurity Risk Management Rule for Broker-Dealers, Clearing Agencies, Major Security-Based Swap Participants, the Municipal Securities Rulemaking Board, National Securities Associations, National Securities Exchanges, Security-Based Swap Data Repositories, Security-Based Swap Dealers, and Transfer Agents, 88 Fed. Reg. 20212 (Apr. 5, 2023), https://www.federalregister.gov/documents/2023/04/05/2023-05767/cybersecurity-risk-management-rule-for-broker-dealers-clearing-agencies-major-security-based-swap.

[20] Cybersecurity Risk Management for Investment Advisers, Registered Investment Companies, and Business Development Companies, 87 Fed. Reg. 13524 (Mar. 9, 2022).

[21] *See, e.g.*, NAT'L INST. OF STANDARDS & TECH., AMERICAN COMPETITIVENESS OF A MORE PRODUCTIVE EMERGING TECH ECONOMY ACT (THE AMERICAN COMPETE ACT): FINAL REPORT, NIST GCR 23-039 (July 2023), https://doi.org/10.6028/NIST.GCR.23-039 ("There is no single accepted definition of AI."); *see also AI and the Risk of Consumer Harm*, FED. TRADE COMM'N (Jan. 3, 2025), https://www.ftc.gov/policy/advocacy-research/tech-at-ftc/2025/01/ai-risk-consumer-harm ("AI safety means different things to different people, and those looking for a definition here will be disappointed.").

[22] *See, e.g.*, NESTOR MASLEJ ET AL., ARTIFICIAL INTELLIGENCE INDEX REPORT 2025, at 3–4, https://arxiv.org/pdf/2504.07139 (finding that AI is rapidly evolving with benchmark scores jumping up to 67.3 percentage points in one year while costs plummeted 280-fold scores rose by 18.8, 48.9, and 67.3 percentage points on MMMU, GPQA, and SWE-bench, respectively. And the inference cost for a system performing at the level of GPT-3.5 dropped over 280-fold between November 2022 and October 2024).

[23] *See, e.g.*, Deloitte Center for Integrated Research, *Four futures of generative AI in the enterprise: Scenario planning for strategic resilience and adaptability*, CROSS-INDUSTRY (Oct. 25, 2024), https://www.deloitte.com/us/en/insights/topics/digital-transformation/generative-ai-and-the-future-enterprise.html ("Only 35% of respondents to Deloitte's third-quarter State of Generative AI in the Enterprise survey indicate they are tracking ROI to measure and communicate value from their gen AI initiatives.").

[24] Hannah Mayer et al., *Superagency in the workplace: Empowering people to unlock AI's full potential* (Jan. 28, 2025), https://www.mckinsey.com/capabilities/mckinsey-digital/our-insights/superagency-in-the-workplace-empowering-people-to-unlock-ais-full-potential-at-work#/ (Companies struggle to move beyond AI pilots to maturity because they underinvest in employee training—with over 20% of workers receiving minimal support despite nearly half wanting formal AI education—creating a skills gap that leaders cite as the primary barrier to scaling AI adoption.).

[25] ALEX SINGLA ET AL., THE STATE OF AI: HOW ORGANIZATIONS ARE REWIRING TO CAPTURE VALUE 16 (2025), https://www.mckinsey.com/~/media/mckinsey/business%20functions/quantumblack/our%20insights/the%20state%20of%20ai/2025/the-state-of-ai-how-organizations-are-rewiring-to-capture-value_final.pdf

Recommendations of the Committee

As an initial matter, the Committee applauds the Commission's establishment of a task force to use AI to enhance its own internal operations and market oversight function.[26] The Committee had previously discussed recommending that the Commission create a task force to leverage AI into its own operations. In connection with the implementation of AI into the Commission's operations, the Committee believes that the Commission should consider disclosing how it uses AI to assist in its work so that all market participants understand how their actions will be evaluated.

Separately, the Committee recommends that the Commission issue further AI related disclosure guidance applicable to issuers built-upon a materiality-informed framework. Issuers' materiality analysis should include factors such as the impact of AI on their growth, financial results, barriers to adoption, possible adverse developments and evolving competitive and regulatory landscapes and similar risks. Also, companies should be cautioned against overstating their AI capability and AI use.

Specifically, the Committee recommends that the Commission integrate AI disclosure guidance as part of existing disclosure items. Reg S-K items 101, 103, 106, and 303 are flexible enough to accommodate the rise in the use of AI by registrants and it may not be necessary to add a sub-chapter focused solely on AI. Issuers already provide disclosures to the markets concerning capital expenditures, R&D, Risks, Human Capital Management, Governance under existing Reg. S-K items. That regulation provides a framework for the Commission to provide what Professor Bodie called "nodes" for discussion that could raise both company awareness about AI's impact on business operations and address investor interest.[27]

The recommendations outlined below are made in the spirit of establishing the initial scaffolding of a disclosure framework that may be further built upon as technology develops. To that end, the Committee recommends that, with respect to its AI disclosure, the Commission require issuers to:

I. Define what they mean when they use the term "Artificial Intelligence",

II. Disclose board oversight mechanisms, if any, for overseeing the deployment of AI at the company, and

("Responses show that organizations are most often using gen AI in marketing and sales, product and service development, service operations, and software engineering—business functions where gen AI deployment would likely generate the most value).

[26] Press Release, *SEC Creates Task Force to Tap Artificial Intelligence for Enhanced Innovation and Efficiency Across the Agency*, SECURITIES AND EXCHANGE COMMISSION (Aug. 1, 2025).

[27] *IAC Meeting*, *supra* note 1, at 1:48:21–1:48:30 (Bodie); 45:25–46:33 (Srivastav).

III. Report separately on how they are deploying AI and, if material, the effects of AI deployment on (a) internal business operations, and (b) consumer facing matters.

I. Require that issuers define what they mean when they use the term "Artificial Intelligence".

All panelists agreed that the Commission should consider giving markets some guidance to define what AI is, and what it is not, so that issuers know whether they are using AI in the first place. There are three approaches that the Commission could take to address this issue. The Committee recommends that the Commission seek public input as it considers possible rule-making on this topic given that many issuers have not moved past proof-of-concept use of AI.

The first approach would be for issuers to self-define what they mean by artificial intelligence, and then rely on that definition throughout its disclosures in describing AI-related risks, their AI deployment strategy (if any), and capital expenses and R&D expenditures related to the implementation and deployment of AI, amongst other material information. If an issuer chooses not to set out its own definition, an issuer may adopt a definition that Congress has enacted or that an agency with technological expertise has adopted for the private sector. The reason for taking this approach is that there are several definitions that exist for the term "Artificial Intelligence." However, there are some commonalities. Professor Bodie stated that definitions of AI distinguish between basic computing enhancements such as calculators and true artificial intelligence with "black box" aspects, where "we don't exactly know exactly how it's coming up with its decisions" called large language models (LLMs).[28] There is significant debate about what is captured within the meaning of artificial intelligence and what is not.[29] For those issuers who do not define AI, the SEC could point to two existing definitions as potential options. The first definition is the one Congress provided when it enacted the National Artificial Intelligence Initiative Act of 2020 if they choose not to craft their own definition of the term "artificial intelligence."[30] Congress defined artificial intelligence as follows:

> The term "artificial intelligence" means a machine-based system that can, for a given set of human-defined objectives, make predictions, recommendations or decisions influencing real or virtual environments. Artificial intelligence systems use machine and human-based inputs to-
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> (A) perceive real and virtual environments;

[28] *IAC Meeting, supra* note 1, at 23:13–24:15.
[29] *See, e.g.*, NAT'L INST. OF STANDARDS & TECH., *supra* note 19.
[30] 15 U.S.C.S. § 9401(3) (LexisNexis, LEXIS through Pub. L. 119-20, approved June 20, 2025).

(B) abstract such perceptions into models through analysis in an automated manner; and

(C) use model inference to formulate options for information or action.[31]

The SEC could also point issuers to the National Institute of Standards and Technology definition of artificial intelligence.[32] NIST is among the agencies leading the federal government's efforts in developing AI governance standards that are applicable to all industries,[33] and has a risk-based approach to AI governance.[34]

Currently, NIST defines artificial intelligence as "[a] machine-based system that can, for a given set of human-defined objectives, make predictions, recommendations, or decisions influencing real or virtual environments."[35] While this definition is succinct, it may be useful because it was adopted by an agency with regulatory expertise and an interest in developing AI standards for the private sector.

II. Disclose board oversight mechanisms, if any, for overseeing the deployment of AI at the firm.

Given AI's significance, capital-intensive nature, and the risks it entails, the Committee believes that issuers should disclose to investors whether the board or a board committee is responsible for overseeing aspects of AI deployment.[36] Currently, around 40% of companies charge a board committee with AI oversight.[37] Investors have an interest in understanding whether there are clear lines of authority regarding the deployment of technology on internal business operations as well as product lines.[38] As a result, the Committee believes that the

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[31] *Id.*

[32] The National Institute of Standards and Technology (NIST) is subdivision of the Department of Commerce.

[33] *NIST's AI Standards "Zero Drafts" Pilot Project to Accelerate Standardization, Broaden Input*, NAT'L INST. STANDARD & TECH. (June 2, 2025), https://www.nist.gov/artificial-intelligence/ai-research/nists-ai-standards-zero-drafts-pilot-project-accelerate.

[34] *Artificial Intelligence*, NAT'L INST. STANDARD & TECH. (last visited June 28, 2025), https://www.nist.gov/artificial-intelligence. "NIST promotes innovation and cultivates trust in the design, development, use and governance of artificial intelligence (AI) technologies and systems in ways that enhance economic security, competitiveness, and quality of life. NIST advances a risk-based approach to maximize the benefits of AI while minimizing its potential negative consequences. NIST efforts focus on fundamental research to improve AI measurement science, standards, and related tools — including benchmarks and evaluations. NIST has a nonregulatory measurement science mission that encourages engagement with industry and others who voluntarily adopt its guidance."

[35] *Artificial intelligence*, NAT'L INST. STANDARD & TECH. (last visited June 28, 2025), https://csrc.nist.gov/glossary/term/artificial_intelligence.

[36] Subodh Misrah, *AI in Focus in 2025: Boards and Shareholders Set Their Sights on AI,* HARV. L. SCH. F. ON CORP. GOVERNANCE (Apr. 2, 2025).

[37] EY Center for Board Matters, *Cyber and AI oversight disclosures: what companies shared in 2025,* EY (Oct. 2025), https://www.ey.com/content/dam/ey-unified-site/ey-com/en-us/campaigns/board-matters/documents/ey-cbm-cyber-and-ai-oversight-disclosures-2025-3.pdf, at 3.

[38] *Id.* (noting that shareholders have filed proposals asking for boards to measure AI impact and that the number of such proposals filed in 2024 quadrupled from the previous year). *See also e.g.* IAC Meeting, *supra* note 1, at 48:25–49:55 *and* 1:10:36.

Commission should require that issuers disclose information regarding boards' oversight, if any, of the implementation of AI into an issuer's operations.

III. If material, issuers should report on how they are deploying AI and the effects of AI deployment on (a) internal business operations, and (b) consumer facing matters.

The Committee recommends that the SEC require issuers to report how they are integrating AI into their internal business operations and their product lines, if AI deployment is material. The Committee recommends this bifurcated approach because the deployment of AI will impact a firm's operations and product lines differently. The Committee recommends a period not to exceed one year between issuance of new guidance and its effective date to allow issuers and investors to engage with each other on ways to operationalize the disclosure requirements. The Committee hopes that the Commission will offer some specific disclosure examples which have the potential for issuers in similar industries to provide disclosures in a standardized format which would allow investors to better analyze the relative risks and disclosures of various industry participants.

a) *Internal Operations*

The Committee recommends that the Commission require disclosure, if material, of AI's impact on internal operations. One area where this is especially relevant is in human capital and efficiencies. The Committee has previously issued recommendations on human capital management disclosure, disclosure concerning emerging technologies, and the Commission approved a change to Reg. S-K to require the inclusion of certain information on human capital.[39] One scholar has suggested that these disclosures should be augmented to require disclosure of "the interplay between human capital and AI-enabled technologies, which are capable of appropriating workers' human capital and substituting it with the expectation of cost savings."[40] Such disclosures are warranted because issuers have claimed to use AI to make internal operations more efficient.[41] Several commentators and technologists have warned about the impact that AI could have on workforces in the form of massive layoffs, and indeed

[39] *See* Recommendation of the Investor Advisory Committee, Human Capital Management Disclosure (March 28, 2019), https://www.sec.gov/spotlight/investor-advisory-committee-2012/human-capital-disclosure-recommendation.pdf; Recommendation of the SEC Investor Advisory Committee's Investor-as-Owner Subcommittee regarding Human Capital Management Disclosure (Sept. 21, 2023); Recommendation of the SEC's Investor Advisory Committee's Disclosure Subcommittee Regarding Digital Engagement Practices (Mar. 7, 2024), *and* Federal Register, *Modernization of Regulation S-K*, Final Rule (Effective Date Nov. 9, 2020).
[40] *See* George S. Georgiev, *Human Capital Disclosure & Corporate Governance: The New Evidence*, 46 CARDOZO. L. REV. 485, 540 (2024).
[41] *See e,g.* Steve Kopack, *Amazon to lay off 14,000 corporate employees*, NBC NEWS (Oct. 28, 2025).

layoffs have begun at some registered firms.[42] On the other hand, other commentators and industry voices have argued that issuers will invest in their human capital and upskill their workforce so that they can continue the same level of productivity with a lower headcount.[43] Additionally, some industries may be using AI to consolidate an array of software functionalities into one tool, thus making internal processes more efficient. If the adoption of AI into internal operations has a material impact, then issuers should disclose that to investors.

The Committee does not take a position on the substance of this debate other than to recommend disclosure, if the effects are material. For example, what amount of value is created when issuers deploy AI and have reductions in headcount impacted earnings. Alternately, if an issuer makes a significant investment in developing a proprietary LLM to improve human capital performance, how much has the company spent and has the investment realized savings? Discussion of these matters could easily fit with Item 101(c).

Human capital is not the only area of internal operations that could be disclosed. The Committee believes that it would be beneficial for investors to understand the use of AI in financial reporting in connection with the review of internal controls over financial reporting under Item 308, if material. Similarly, it is the view of the Committee that it would be helpful to investors to learn whether the audit committee of a board is exercising oversight over the use of AI when preparing financial statements. Additionally, the Committee believes it would be helpful for investors to learn what steps the Board is taking to manage AI governance as a matter of managing cybersecurity risks that AI usage may create.[44] Issuers should provide discussion on risk mitigation, especially of proprietary methods or trade secrets, that otherwise may be fed into large language models and otherwise be discovered through clever prompting by competitors, if they present a material risk. The above are only three examples of how AI impact internal operations, and some of the impacts may, or may not be material.

b) *Product Lines*

In addition to impacting internal operations, AI can also create new opportunities and risks when integrated into product lines or consumer facing products. The Committee recommends that the Commission provide separate disclosure guidance that applies when issuers deploy AI as part of their consumer facing products, when material. Any such guidance should reflect the Commission's existing position regarding the disclosure of trade secrets or other sensitive information. This recommendation is aimed at having issuers disclose the amount that they are investing into the integration of AI and product development. Here are some examples included solely for illustrative purposes of what relevant disclosures of using AI with product lines could look like.

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[42] *Id. See also* Max Zahn, *Amazon layoffs highlight impact of AI, some experts say: 'Wake-up call',* NBC NEWS (Oct. 28, 2025).

[43] *See e.g.* Orly Lobel, *The Future of Work in the Era of AI,* 100 IND. L.J. 359, 378 (2024) ("AI technologies can enhance the AI learning experience for employees upskilling and reskilling. AI can create customized learning opportunities. Moreover, AI can be used to better identify existing skill or knowledge gaps.")

[44] *See* EY Center for Board Matters, *supra* note 37, at 5.

1) Medical industry participants could disclose whether FDA guidelines on high-risk machine-learning-based AI systems impair or otherwise impact patient outcomes if they are a material part of operations.[45]

2) Financial firms could disclose how much they are spending on developing AI platforms to inform investment advice that an advisor might make to a client as an R&D item, if material.[46]

3) An airline that uses AI to inform pricing decisions for travel could disclose how much it spent on developing the model, and whether deploying such technology has allowed it to meet revenue and customer satisfaction benchmarks, if the use of the algorithm has a material impact on earnings.[47]

Disclosure of this information could fit into already existing categories without the need for a special, non-integrated "AI disclosure" rule because the examples discussed above can be integrated into already existing categories of disclosure.

[45] Lu, *supra* note 5, at 143; *see also IAC Meeting*, *supra* note 11, at 31:26–32:02 (Bodie) (suggesting that the use of AI in healthcare may present risks when it "moves beyond what a human can decipher").
[46] Professor Bodie stated that "anytime you have a group of companies relying on the same set of tools to make decisions if there is systemic overreliance on those tools and tools go astray that can lead to catastrophic results." *IAC Meeting, supra* note 1, at 29:25–29:47; other experts shares the same concerns, *see* Tania Babina et al., *Artificial Intelligence and Firms' Systematic Risk* 2 n. 3(Nov. 18, 2023) (unpublished manuscript), http://dx.doi.org/10.2139/ssrn.4868770 ("Increased fragility during market downturns can arise due to common risks stemming from shared reliance on the same datasets, third-party dependencies (e.g., cloud computing), and similar models tested on short-term time series.").
[47] Michelle Aslam, Henry Larson, Ari Shapiro, John Ketchum, *Artificial Intelligence Setting All Airfares? That future might not be far off,* NPR (Jul. 24, 2025).